Money-Printing And Global Illusions

One day we will all be billionaires, or, judging from the pair of 100 trillion (that's '1' followed by 14 zeroes) Zimbabwe dollar notes I keep nearby, we might all be centitrillionaires. Thank you, Ben; I feel so, so…Stimulated!

This all reminds me of a joke, recast for a PG-rated Website, where a breathless young lad is telling his friends about this wondrous tavern where they keep giving you free drinks followed by numerous trips upstairs. One wide-eyed friend gasps, "Wow, have you been there?" to which the youth replies excitedly, "No, but my sister has!"

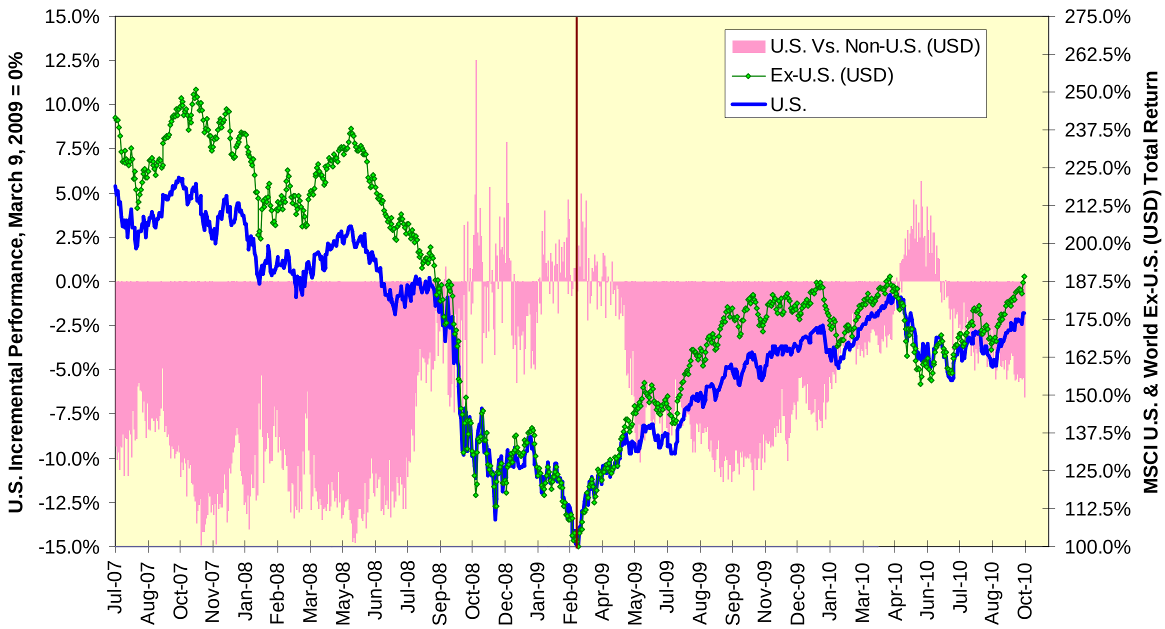
Welcome to the world of quantitative easing and enjoy the free booze.

U.S. Versus The World

Before we embark on a second round of money-printing, let's take a trip down memory lane and see how the U.S. performed against the World Ex-U.S. in both USD and local currency terms using the MSCI-Barra indices for both. In both cases we can compare the incremental performance using the March 2009 low as a starting point.

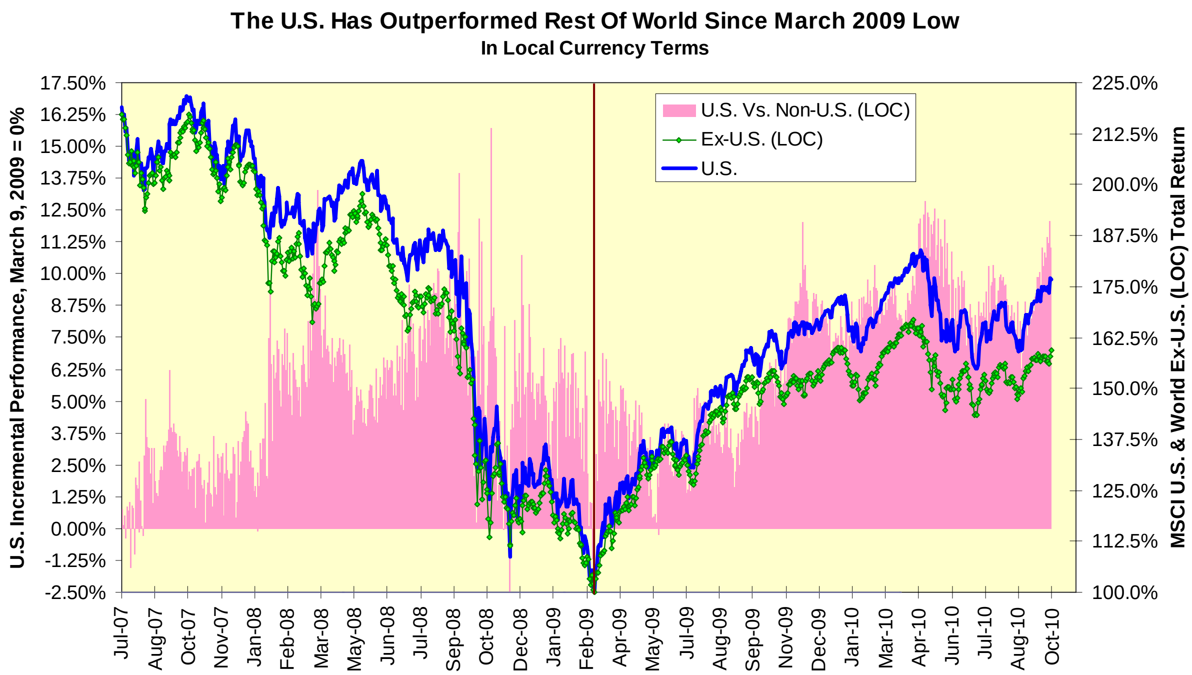
In dollar terms, the World Ex-U.S. has outperformed the U.S. since March 2009 except for the period during and after the European sovereign credit kerfuffle of earlier this year (is there nothing €850 billion cannot solve?). This outperformance goes a long way toward explaining why Americans feel more comfortable sending their savings overseas to where responsible governments like Japan's can take better care of them.

The U.S. Has Underperformed Rest Of World Since March 2009 Low
In USD Terms



The rest of the world has outperformed us by 12.4%; of course, the dollar has lost about 19.5% of its value over the same period, so when you have 12.4% more of something worth 19.5% less, have you achieved anything beyond your free drink?

Now let's shift over to the comparison in local currency terms. Here the U.S. has outperformed the rest of the world by about 17.6%; this still does not offset the currency loss. Moreover, if we take a look at the World Ex-U.S. index in local currency terms, we see it has gained just under 1.9% year-to-date at the time of this writing. This means non-U.S. investors are not making gains in their own markets and are not offsetting dollar losses by investing in the more rapidly advancing U.S. market. Now who is marching up the stairs?



Is the conclusion, that no investors anywhere can achieve actual gains from money-printing, a surprise to anyone? A second question is why anyone would think debasing the world's reserve currency and convincing all and sundry, a category that most certainly includes you, that higher inflation and nominal interest rates lie ahead would somehow encourage higher investment in real plant and equipment? A rational response to this money-printing would be to shorten your investment horizons and not expose yourself to the orgy of inflation sure to come here just as it did in Weimar Germany and in Zimbabwe.

Of course, all of this inflation might suit hopeless debtors just fine. Some live in Washington, D.C., and they are lined up to buy me a drink. Thanks, but I've had enough.